

REPORT TITLE: GENERAL FUND BUDGET OPTIONS AND MEDIUM TERM FINANCIAL STRATEGY

19 NOVEMBER 2025

REPORT OF CABINET MEMBER: Cllr Neil Cutler, Deputy Leader and Cabinet Member for Finance and Transformation

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WARD(S): ALL

PURPOSE

This Medium Term Financial Strategy (MTFS) sets out the organisational approach for managing financial resources to protect our core council services and enable delivery of the Council Plan priorities going forward. It provides an overview of the existing financial position for the council and a forecast outlook over the medium term planning period.

This report looks to explain the cost drivers, cost pressures, planning assumptions, risks and opportunities that may impact the council's financial position in future. It describes how we plan to respond to the major challenges ahead, such as Local Government Reorganisation, and the principles we will adopt in managing and using our financial resources to get the most out of the limited funds we have available.

The MTFS gives us clarity over what financial resources we have at our disposal to deliver the priorities from the Council Plan. In particular, balancing the delivery of core council services with the Council Plan's areas of enhanced focus around the following six priorities; thriving places, good homes for all, healthy communities, greener faster, listening and learning and efficient and effective.

Projections used for the MTFP are subject to a high degree of uncertainty; particularly as the provisional settlement has not yet been released and is expected to contain major changes in distribution resulting from the funding review. As a result, this MTFS uses assumptions based on the best knowledge available at this time to set out proposals to address both the existing and emerging budget pressures set out in this report.

RECOMMENDATIONS:

That Cabinet:

1. Note the assumptions set out in respect of Government funding, council tax, inflation rates and fees and charges (set out in full in section 13 of this report) and the projections set out in Appendix 1.
2. Approve the Medium-Term Financial Strategy as set out in sections 13 to 17 of the report.
3. Approve the following one-off revenue budget growth requests;
  - i. An additional £0.3m revenue budget, funded by the transitional reserve, towards the Community Governance Review.
  - ii. A revenue budget of £2.280m, funded by the transitional reserve, towards the Local Government Review.
  - iii. A revenue budget of £0.03m in 2025/26, to be funded by higher than budgeted Parking income, towards additional Parking Enforcement overtime costs.
  - iv. A revenue budget of £0.05m in 2025/26, funded by the property reserve, for fees to design and plan works to the Guildhall.
4. Approve that a detailed budget be prepared for consideration by Council in February 2026 based on the assumptions set out in this MTFS; final spending review announcements; and including the following options shown in Appendix 2 and Section 14 of the report:
  - a. That, in relation to services:
    - i. Forecast increase in utility costs of £0.15m per annum.
    - ii. Forecast annual savings of £0.3m per annum due to a reduction in the employer's pension scheme contribution from 18.0% to 15.9%.
    - iii. An additional baseline £0.115m revenue budget for the permanent recruitment of a Corporate Head of Resources.
  - b. That, in relation to other annual budgets:
    - i. Forecast increase in democratic costs of £0.085m
    - ii. Increase in garage maintenance budgets of £0.120m per annum.
  - c. In relation to management of the council's property assets:
    - i. An additional £400,000 per annum be set aside into the Property Reserve for the maintenance of and investment in operational assets.
    - ii. An additional £100,000 per annum baseline revenue budget, for new requirements highlighted by the latest Asset Management plan and uplifts to existing maintenance budgets.

5. Approve the following regarding Car Parking fees from October 2026:
  - a. Freeze on park and walk and market town car park fees
  - b. CPI increase to all central parking and overnight charges, generating an additional £150,000 per annum (£85,000 in 2026/27)
6. Approve a capital budget of £100,000, funded by the Homelessness risk reserve, for the conversion of Stable Yard, to the rear of 59 Colebrook St, for temporary accommodation. This is subject to a business case and subsequent approval of expenditure under Financial Procedure Rule 7.4.

## IMPLICATIONS:

### 1 COUNCIL PLAN OUTCOME

- 1.1 The council adopted a new *Council Plan 2025 – 2030* in January 2025 (report CAB3480 refers). The plan sets out, across six priorities, the council's ambitions, activities and outcomes for the five year period from 1 April 2025.
- 1.2 The budget approved in February 2025 (report CAB3494 refers) directly supported the delivery of all priorities set out in the Council Plan.
- 1.3 Whilst the new council plan was being developed in late 2024, the Government announced a major programme of reform for local government, including the creation of new unitary authorities to replace the current two-tier structure of a County Council working with District and Borough Councils – 'Local Government Reorganisation' (or 'LGR'). In February 2025 the Secretary of State [wrote to all councils in Hampshire](#) to formally invite proposals for forming new, larger unitary councils within the Hampshire and Solent region.
- 1.4 On 26th September, 11 councils across Hampshire submitted a joint business case to Government, proposing the creation of four new unitary authorities for mainland Hampshire. It became clear from drawing up the business case, that implementing LGR (including the amalgamation of some and disaggregation of other existing services) will require a huge amount of time and resources from all existing local authorities in the county.
- 1.5 Maintaining the council's existing high quality and resilient services at the same time as delivering LGR will require prioritisation of resources to focus on key priorities. A series of 'Preparing for Change' meetings with Cabinet members and senior officers has helped to shape both the priority projects list and formed the basis of the service plan reviews ahead of the 2026/27 municipal year.

### 2 FINANCIAL IMPLICATIONS

- 2.1 These are set out throughout the report.
- 2.2 A Medium Term Financial Plan (MTFP) is kept under review throughout the year as potential pressures emerge and gives an updated future outlook for a rolling four year period. All base assumptions are revisited annually as part of the budget setting process, and this informs detailed budgets and spending plans that come forward for approval by Council in February each year.

### 3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 Under section 151 of the Local Government Act 1972 a local authority must make proper arrangements for the administration of its financial affairs. Under s28 of the Local Government Act 2003 a local authority must review its budget

calculations from time to time during the financial year and take appropriate action if there is any deterioration of its budget.

- 3.2 The council is required under Chapter 3 of the Local Government and Finance Act 1992 to set a council tax for the forthcoming year along with its budget estimates. The decision must be made by 11 March of the preceding year. The council's prospective income from all sources must be equal to its proposed expenditure.
- 3.3 The council is also required to set a balanced budget, taking into account a range of factors, including consultation feedback, with decisions taken in accordance with the council's duties in the Equality Act 2010.
- 3.4 The approval of the budget and setting of the Council Tax is a decision reserved to Full Council under the Local Government Act 2000 and the Local Authorities (Functions and Responsibilities) Regulations 2000 (as amended). Under these regulations, the Cabinet makes recommendations as to the setting of the council tax and budget to Full Council.

#### 4 WORKFORCE IMPLICATIONS

- 4.1 This MTFS details the organisational approach for managing financial resources to protect our core council services, enable delivery of the Council Plan priorities and LGR going forward. Employees are critical to the delivery of these services and priorities and at 31 March 2025 the council had a workforce of 415 FTEs.

#### 5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 The council's General Fund has a property portfolio that was valued at £176.2m as at 31 March 2025 of which £6.9m is classified as investment properties (held solely for rental income and/or capital appreciation). A key strand of the Council's financial strategy is to maximise income from its assets, where possible, and seek to manage risk by achieving a balanced portfolio of assets. Options considered during the budget planning process therefore involves investment in the refurbishment of or disposal of some assets.
- 5.2 Latest estimates of future rental income show that based on current contract end dates up to £800,000 is at risk in 2028/29 and 2029/30 and then falling back down to an at risk reduction of £500,000 from 2030/31.

#### 6 CONSULTATION AND COMMUNICATION

- 6.1 Stakeholder engagement is an important part of the council's budget planning process. Feedback from the regular Residents' Survey provides opinion on local priorities; views on emerging policy; and the relative perceived importance of council services. This insight helps the council to take financial decisions; to plan and manage budgets; and to use its financial resources to support delivery of priorities.

- 6.2 Consultation principles including those of consulting in good time; being inclusive but with clear and appropriate limits; consulting using clear, simple information; and using responses to inform decision making are specified in and underpin the TC25 programme.
- 6.3 Consultation for this MTFS and the 2026/27 budget will include:
- a) A presentation to and discussion with parish council representatives at the November Parish Briefing meeting.
  - b) Discussion with local business representatives through the Chamber of Commerce and the Business Improvement District (BID) Winchester District Strategy Group business briefing in December 2025.
  - c) Scrutiny Committee consideration of proposals in this MTFS report and the Budget Report ahead of Cabinet decision making in November and February respectively. Scrutiny feedback will be summarised and presented to Cabinet for consideration with both reports.

## 7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 The Council Plan recognises one of the main challenges facing the district as “the climate emergency and the pressing need to reduce the Winchester district’s carbon footprint.” In response, an enhanced focus has been given to going greener faster. The main areas of activity are reducing carbon emissions; ensuring environmental resilience; reducing energy demand; and increasing renewable energy.
- 7.2 The MTFS includes a £200,000 per annum baseline revenue budget to fund carbon programme delivery work.
- 7.3 As well as these revenue resources, a total budget of £1m over 4 years, funded by prudential borrowing, has been allocated in the capital programme for energy management projects that would cover their financing costs. These projects may, for example, include further provision of solar panels to council properties and local business; further EV charging infrastructure; and other interventions to reduce energy usage. In addition, projects within the capital programme that are not primarily for carbon reduction must consider the council’s Greener Faster objective where possible.

## 8 PUBLIC SECTOR EQUALITY DUTY

- 8.1 The council, in the exercise of all its functions, must have due regard to the Public Sector Equality Duty in section 149 of the Equality Act 2010. The content of this report is part of the budget consultation process, and the requirements of the Public Sector Equality Duty are considered alongside any relevant budget options put forward.
- 8.2 The Medium-Term Financial Strategy is an overarching framework relating to financial resources and priorities at a very high level. A full Equality Impact Assessment will be undertaken for each proposed service change or proposal

that aligns to the principles included in this MTFS to highlight the potential equality impacts.

## 9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 All data is securely stored in council systems and the council is certified with Public Sector Network (PSN) connection compliance. Any new project work set out in this report and the Capital Programme will be subject to individual data protection impact assessments.

## 10 RISK MANAGEMENT

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<p><i>Property</i> Commercial tenants unable to pay rents or subject to business failure</p> <p>Slowdown in commercial property investment, meaning that the council's development schemes achieve less interest or less income than expected.</p>	<p>Close monitoring of rent position by property team with support to tenants through effective working relationships.</p> <p>The council's advisors are reviewing the property investment market and will provide advice as to timing of any marketing.</p>	<p>Potential to increase commercial property income when rent reviews are carried out.</p>
<p><i>Legal</i> The council is unable to balance the revenue budget resulting in the issuing of a S114 notice.</p>	<p>Proposals set out in this report, including the strategy for management of reserves mitigate against this.</p>	<p>Present a balanced budget in difficult circumstances</p>
<p><i>Timescales</i> An economic environment which may impact on income received by the council</p>	<p>The council has set aside an Exceptional Inflation reserve of £1m to mitigate higher than expected inflation and an economic environment which may impact on income. Other uncommitted revenue reserves are available to support further increases to the projected deficit.</p>	

Risk	Mitigation	Opportunities
TC25 does not deliver the required level of savings.	The programme is governed by a Programme Board and progress (financially and in timescales) is being monitored through PAC Board as a tier-one corporate project. As a tier-one project, quarterly highlights are reported to the Scrutiny Committee.	
<p><i>Financial</i> The council is unable to balance the revenue budget</p> <p>Risk of lower than projected demand for income generating services</p>	<p>Proposals set out in this report, including the strategy for management of reserves mitigate against this.</p> <p>The council has uncommitted revenue reserves available which can be utilised as a last resort as above</p>	Streamlining of services and digitalisation provides opportunities to improve the customer experience as well as making savings.

## 11 SUPPORTING INFORMATION:

### Local government financial landscape.

- 11.1 The financial pressures faced by local authorities remain very challenging. The government have consulted on a new funding distribution system ('Fair Funding 2.0') that has a greater focus on 'need' and this will therefore benefit higher need, lower tax base authorities. However, this redistribution in funding will create significant challenges for authorities, such as Winchester, who have benefited from the current 'reward' based system.
- 11.2 Based on the expected review and redistribution of funding, the MTFP (appendix 1) is showing a balanced budget for the next two years and then projected annual budget shortfalls of £1.3 and 1.8m at the end of the decade. Thanks largely to careful financial planning, including rising to the 'Transformation Challenge 2025' (TC25), the MTFP is showing a more stable position than forecast in previous years.



General Fund Revenue (£m)	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
<b>Budget Surplus / (Shortfall)</b>	<b>-0.049</b>	<b>-0.164</b>	<b>-1.509</b>	<b>-2.021</b>
Unavoidable Growth	-0.850	-0.850	-0.850	-0.850
Budget Options / Savings	0.899	1.014	1.022	1.022
<b>Budget Surplus / (Shortfall) after budget proposals</b>	<b>0.000</b>	<b>0.000</b>	<b>-1.337</b>	<b>-1.849</b>

*Table 1 – extract of the 2026/27 – 2030/31 MTFP showing the forecast budget shortfalls over the medium-term planning period.*

#### Update on Transformation Challenge 2025 (TC25)

- 11.3 The organisation-wide TC25 transformation programme has continued to successfully deliver savings. A further £692,000 of ongoing savings have been removed from the revenue budget set out in appendix 1. This is over-and-above those reported in the 25/26 General Fund Budget report (CAB3494) and they are summarised below:

Review	Budget Reduction
Use of Planning Performance Agreements	£76,000
Shared IMT Audit with Test Valley Borough Council	£4,000
Regulatory Savings	£13,000
Removal of externally facilitated Residents' and Young Persons Survey	£23,500
Support Services Savings	£52,000
Cleaning Contract Review	£56,000
Shopmobility Grant Review	£45,000
Parking Cash Collection Savings	£27,000
Policy service review	£65,000
Sale of 27 Eastgate Street	£25,000
Market towns resource	£8,000
Insurance Savings	£8,500
Community Grants Reductions	£110,000
Review of rents and leases	£28,500
Public Convenience Savings	£25,000
Garage rent review	£120,000
Other Savings	£5,500
<b>Total.</b>	<b>£692,000</b>

- 11.4 To date, TC25 has secured total budget reductions of £1,619,000 (£927,000 identified prior to this report, of which £857,000 was reported in February 2025, CAB3494).

### Preparing for Change

- 11.5 Local Government Reorganisation has required a shift in the focus of the council's transformation journey. What started as TC25 transformation, with a focus on the services delivered by the council now continues but has to be cognisant of the wider considerations as the council prepares for the fundamental service changes of becoming part of a new unitary authority.
- 11.6 The new transformation phase 'Preparing for Change' has required all services to consider the impact of LGR on their activities and each Corporate Head of Service has worked with the relevant Cabinet member to present the Transformation Board with updated transformation options in 'Preparing for Change' round-table meetings.
- 11.7 This work will form the base of the service plans which will also carefully detail the services and activities to be prioritised by the council for 2026/27, with an onward look to 2027/28 when the Shadow Council will come into operation. These service plans will form the basis of the established process and review of quarterly finance and performance reports – as now.
- 11.8 Transformation continues but will be focused closely on work and activity that has immediate benefit to the residents of our district and will support the development of a new unitary council.
- 11.9 The Transformation Board will focus on those projects which are both fully aligned with the Council Plan and deliverable prior to LGR.

### Change implementation costs

- 11.10 The preparation for and implementation of the transition to a new unitary authority will cost a significant amount for all councils. Our best estimates of the costs of readying for day-one have been included in the MTFP in appendix 1. The total estimate of cost for service-redesign; financial planning; legal and contract preparation; communication and stakeholder engagement; HR; IT, data and systems preparation etc. is £2.3m. This cost can be met by drawdown from the transitional reserve.
- 11.11 The cost of the Community Governance Review (CGR) for the Winchester town area is also included in the MTFP in appendix 1. There is requirement for additional one-off resources of £300,000, taking the total budget requirements to £400k. This is considered to be a prudent estimate with headroom to accommodate the cost of elements that are not settled at this stage. This consists of the following estimated costs:
  - Up to 3 rounds of public consultation with professional agency support, printing & mailshots, engagement events, advertising etc.
  - Legal / Kings Counsel advice on City Status & Mayoralty issues (some overlap with Local Government Reorganisation on this)

- property legal support on potential service and asset transfers
- surveying/ property support on asset transfers
- undertaking first parish council elections in May 2027
- additional professional support as may be required where in-house capacity is exceeded.

## 12 2025/26 Budget Update

- 12.1 The latest forecast for the 2025/26 general fund budget is a surplus of £1.877m and is due to be reported in the Quarter 2 Performance Report (CAB3525 refers). The forecast surplus is the net of a number of forecast favourable and adverse income / funding and expenditure variances.
- 12.2 Favourable service income / funding variances relate to;
- a) Investment Property - £100k
  - b) Interest Receivable - £300k
  - c) Extended Producer Responsibility Funding (EPR) - £846k
  - d) Food Waste Transitional Funding - £118k
- 12.3 Favourable expenditure variances relate to;
- a) Employees - £400k
- 12.4 An adverse variance has been identified relating to higher utility costs of £150k. This is being adjusted in the planned budget for 2026/27.
- 12.5 Additional TC25 savings of £300k have been identified for 2025/26, being a mix of both additional income and expenditure savings.
- 12.6 The forecast surplus for 2025/26 is assumed in the MTFP (appendix 1) as being transferred to the Major Investment Reserve.

## 13 Preparing the budget - assumptions used in the MTFS

### Government funding update

- 13.1 The Government's Fair Funding Review 2.0 has been out to consultation and, as expected, it is likely to bring significant changes in the distribution of funding. MHCLG wrote to the council in June 2025 to confirm that Winchester is one the councils which may need to manage larger losses. However, the fair funding review is expected to give some short-term assurance covering the three year period from 2026/27 to 2028/29.
- 13.2 Given the considerable changes expected the forecasts included in Appendix 1 should be considered to be based on the best information available and could be subject to considerable change once funding announcements are released.

- 13.3 Some of the potential changes to the funding distribution in 2025/26 are: (2025/26 funding shown in brackets)
- a) Removal of the New Homes Bonus (£1.811m)
  - b) A reset of business rates retention (£7.931m)
  - c) Removal of the funding Guarantee (£0.575m)
  - d) Harmonisation of certain grants (such as Homelessness Prevention) into the Settlement Funding Assessment (SFA)

#### Assumptions included in the MTFP

- 13.4 In line with advice from our specialist external advisors, a number of key assumptions have been made in the MTFS (shown in Appendix 1):
- a) That the key elements of the fair funding review consultation will be adopted, including a reset of business rates retention from 2026/27.
  - b) That there will be a harmonisation of grants into the Settlement Funding Assessment (SFA) and that grants will be distributed using weighted needs shares.
  - c) That SFA will be distributed in line with assumptions based on the fair funding review consultation.

#### Council Tax

- 13.5 There is uncertainty over Council tax referendum limits and other potential council tax changes for 2026/27. For forecasting purposes, it is assumed that these will remain at below 3% (the previous £5 limit may remain but is now lower than 3%).
- 13.6 The MTFS assumes a general annual tax base increase of 1.8%. An increase of 1.8% will generate approximately an additional £0.16m p.a. of district Council Tax Income. However, there are additional costs associated with additional properties (Environmental Services Contract cost is specifically increased based on number of additional properties).
- 13.7 The MTFS currently assumes a council tax increase of 2.5% per annum.
- 13.8 Any increase in council tax will need to bear in mind the interrelationship between the town and district precepts, which are subject to the same combined referendum limit.

#### Inflation rates

- 13.9 Inflation (CPI) has been increasing in recent months, reaching 3.8% in August 2025 and remaining at this level in September 2025. Inflation is higher than previous expectations and is not now expected to start falling back to the Bank of England target of 2% until the second half of 2026. Significant risks

around this remain, and higher than expected inflation would put further strain on budgets and may also lead to difficult decisions around increases to fees and charges.

- 13.10 The national staff pay award for 2025/26 was a one-year settlement increase of 3.2%. Appendix 1 assumes annual pay awards of 3% but if inflation does not start to reduce over the next 12 months, then there will be increased pressure for higher settlements.

#### Fees and charges

- 13.11 Following previous approval of the fees and charges policy framework (whereby fees and charges will be increased by the September CPI to address contractual increases; to achieve cost recovery; or to bring a fee in line with the market norm) the MTFP in appendix 1 assumes this continues to be the case. Additionally, that it continues to be the case that the Section 151 officer is authorised, in consultation with the Cabinet Member for Finance and the Cabinet Member responsible for the service, to approve a different fee where appropriate.

#### 14 Budget reviews and unavoidable growth

- 14.1 Whilst it is necessary to identify budget reductions to contribute towards funding forecast deficits, there are a number of issues that require attention and budget provision if the Council is to maintain delivery of its services and key priorities.

#### Homelessness Prevention temporary accommodation costs.

- 14.2 The Budget options report and 2025/26 General Fund budget report identified a potentially significant increase in demand for temporary accommodation, and a budget was allocated for Bed & Breakfast costs in the General Fund of £240,000 in 2025/26, increasing to £350,000 in 2026/27. In order to mitigate against the risk that costs could be significantly higher, a homelessness risk reserve of £1m was created.
- 14.3 The excess of demand for temporary accommodation over the available supply increased by 77% between April 2024 and March 2025. The equivalent statistics for 2025/26 up to quarter 2 demonstrate that the demand for temporary accommodation continued to increase in the first half of 2025/26, with a further increase in approaches of 55%.
- 14.4 It is impossible to predict how the demand for temporary accommodation will change over the medium term but the most likely scenario is that demand will continue to increase in the short term.
- 14.5 The Council reviewed and updated its Preventing Homelessness and Rough strategy in 2025 (report CAB3508H refers) and continues to prioritise early

interventions and prevention measures, partnership work, and preventing repeat homelessness where possible.

- 14.6 The combined budget provision in the MTFS and risk reserve gives the Council capacity to cope with a 70% increase in B&B costs in 2026/27 and 2027/28, plus a further 30% in 2028/29.
- 14.7 In order to mitigate the increasing cost, options for increasing the supply of temporary accommodation have been considered, with. 5 units of temporary accommodation currently being brought into use.
- 14.8 An additional unit (two bed) of temporary accommodation can be brought into use by conversion works on the council's Stable Yard property to the rear of 59 Colebrook St. The estimated cost of doing so is estimated at £100,000 (pending detailed quotation). Approval is therefore sought for a capital budget of up to £100,000, financed by the Homelessness risk reserve.

#### 14.9 Service Income / Expenditure

- a) **Increased Utility Costs** – increased utility costs during the past year are forecast to increase costs by £0.15m per annum.
- b) **Democratic Services additional costs** –estimated at £0.085m per annum.
- c) **Corporate Head of Resources** – will add £0.115m per annum to baseline budgets.
- d) **Estates Property Maintenance** – current projections based on an annual revenue contribution to reserves of £0.55m per annum is not sufficient to cover expected future expenditure. A further revenue contribution of £0.4m per annum to be considered to cover forecast one-off capital and revenue requirements(taking the total contribution to £0.9m per annum).Also, based on the latest Asset Management Plan, an additional £0.1m per annum revenue budget is required to maintain the corporate portfolio of assets.
- e) **Employers Pension Contribution** – the triennial review by the Hampshire Pension Fund is showing a reduction in overall employers pension contribution from 18% to 15.9%. This results in a baseline saving of £0.3m per annum.
- f) **Increase in Parking fees** – Increasing central car park fees by inflation, from October 2026, will increase income by £0.085m in 2026/27 and then £0.150m for a full year from 2027/28.
- g) **TC25 Savings** – as listed in section 12 above, TC25 savings of £0.692m have been identified by 2028/29.
- h) **Employee Inflation** – at an estimated pay increase of 3% for 2026/27, a forecast cost of £0.624m has been included in Appendix 1.
- i) **Contract Inflation** – at an estimated average increase of 4% for 2026/27, a forecast cost of £0.737m has been included in Appendix 1.

- 14.10 It is important to note that the cost of food waste collections assumes government funding of 80% of the running costs of the new service. This is a high-level estimate which will be updated to reflect actual government funding once known. It is also reasonable to assume that the funding will not be separated out in the medium-term and so will be at risk of redistribution to 'higher need' authorities.

One-off budget pressures and projects

- 14.11 The following one-off budgets are reflected in the MTFS in Appendix 1 and Earmarked Reserves projections in Appendix 3:
- 1) Local Governance Review (LGR) – NEW - As identified in 11.11 above
  - 2) IMT 10 Year Plan – Expenditure planned as part of the 10 year IT plan and funded by the IT Reserve.
  - 3) Community Governance Review (CGR) – NEW - As identified in 11.10 above.
  - 4) Car Parks – Expenditure approved annually as part of the car park maintenance plan.
  - 5) Homelessness – Homelessness Prevention expenditure which is funded by government funding.
  - 6) Transformation Programme – TC25 project budget.
  - 7) Local Development Framework – Planned expenditure on the local plan and funded by the LDF reserve.
  - 8) Landscape Mitigation – Small annual expenditure which is currently funded by a previous developer contribution.
  - 9) Community Grants transitional reduction – use of reserves over three years to phase in planned reduction in grants.
  - 10) Asset Management Plans

General Fund One-off Expenditure Budgets	2026/27	2027/28	Funding
	Forecast £000	Forecast £000	
1 Local Governance Review	1,175	1,105	Transition Reserve
2 IMT 10 Year Plan	251	129	IT Reserve
3 Community Governance Review (CGR)	300		Major Investment Reserve
4 Car Parks	280		Car Parks Reserve
5 Homelessness	241		New Burdens
6 Transformation Programme - total costs including employees	137	8	Transition Reserve
7 Local Development Framework	130	339	LDF Reserve
8 Landscape Mitigation	2		Landscape Mitigation
9 Community Grants transitional reduction	43	28	Transition Reserve
10 Estates Revenue Maintenance	1,867	507	Property Reserve
<b>Total one-off budgets</b>	<b>4,426</b>	<b>2,116</b>	

- 14.12 The Collection Fund Adjustments line relates almost entirely to business rates retention transfers. In 2024/25 the original forecast retention was higher than

was seen in the final outturn but due to the way this is accounted for it takes time to fully unravel. Therefore, the forecast surpluses remain in 2024/25 and 2025/26 and then this is finally repaid in 2026/27. The lower than forecast outturn in 2024/25 was due to higher than expected appeals provisions.

## 15 Reserves

- 15.1 Reserves play a major role in the Council's overall financial stability. They ensure that funding is available over the medium term to support major one-off expenditure covering areas such as major projects, the repair and maintenance of Council assets, risk management, and for the management of certain government funding such as Homelessness.
- 15.2 The estimates shown in Appendix 1 assume there will be no draws from reserves in order to meet ongoing expenditure. However, risk reserves are available to support the TC25 programme where required and also could act as a temporary buffer against the risk of changes in government funding, such as a reset of business rates retention.
- 15.3 A summary of reserves is included as appendix 3. As we are awaiting detailed government funding announcements for 2026/27 and beyond it is planned to review reserve levels in more detail over the coming months, with a final report from the S151 officer on the robustness of reserves in February 2026. This review will include consideration of existing risks but also new risks such as Homelessness Prevention Bed and Breakfast accommodation costs.
- 15.4 The most significant reserve balance, outside of CIL, is the "Transitional Reserve" which was established over 5 years ago. This reserve has an uncommitted balance of c£9m and has the dual purpose of supporting the critical transformation and digitalisation investment required in order to deliver the required future baseline budget savings; and also acting as a temporary buffer should savings take longer to deliver than had originally been planned.
- 15.5 It should be noted that plans are being developed which will require significant expenditure funded by reserves, This expenditure will mean that reserves are not available for use in other projects. The current list is shown under 'Emerging Projects' below and notably The Guildhall which is likely to require significant works.

## 16 General Fund Capital

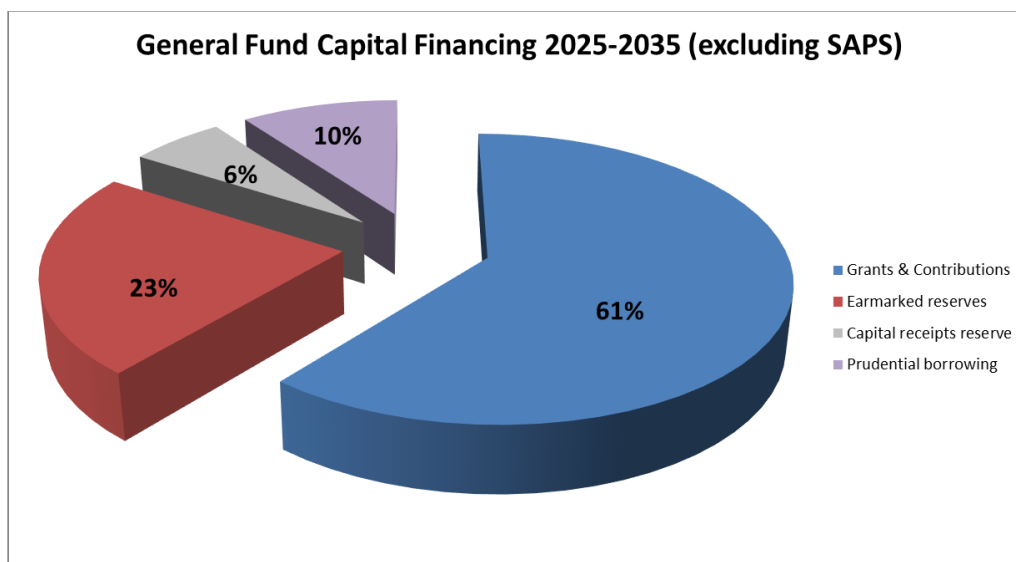
- 16.1 The council has a general fund capital programme totalling £39.8m over the next 10 years. Of this, £4m relates to the Strategic Asset Purchase Scheme (SAPS) which will only be spent if suitable assets are identified for purchase in line with the provisions of the scheme. Of the total programme around £24.5m has been approved for expenditure, with the remaining projects, including SAPS, subject to appraisal.



- 16.2 Persistent higher than target inflation and increased borrowing costs both present a challenge to the capital programme. However, by using the resources available to it and, where possible, maximising the use of external grants and contributions, the council still has an ambitious programme of works such as the River Park pavilion project, a significant Disabled Facilities Grant programme, CIL funded community grants, refurbishments to play areas, investments in the council's car parks and public conveniences, and several other projects.
- 16.3 In the coming years it is anticipated that, in addition to the existing programme, capital budgets may be required in order to: create ongoing savings in respect of the TC25 programme; implement digitalisation to enhance the customer experience and deliver savings; and meet the council's carbon reduction objective such as investment in solar PV.
- 16.4 Ongoing careful asset management is essential and there are potential opportunities from asset sales where the capital receipt could be used to either finance projects that would otherwise be unaffordable or to reduce the council's outstanding borrowing need which translates to annual revenue cost savings.

#### Capital Financing

- 16.5 Excluding SAPS (funded by borrowing if suitable purchases are identified), the proposed financing of the programme is as follows:



- 16.6 The main sources of finance for capital projects are as follows:

- Capital grants and contributions (e.g. Disabled Facilities Grant and Community Infrastructure Levy);
- Capital receipts (from asset sales);

- Earmarked Reserves (e.g. the Major Investment Reserve, the Property Reserve, the Car Parks Property Reserve, and the IMT Reserve);
- Revenue contributions; and
- Borrowing including internal (also known as the “Capital Financing Requirement”).

- 16.7 Where possible, the most restricted funding sources should be used before using earmarked reserves or revenue contributions. Capital grants and contributions typically are for either specific projects or types of expenditure, and capital receipts from the sale of assets can only be used to finance new capital expenditure or reduce unfinanced capital expenditure (borrowing) from prior years. Revenue reserves are not restricted to capital only and can therefore fund expenditure that is not capital in nature and can be used to fund day to day expenditure should there be either an unplanned shortfall in income or unexpected additional expenditure.
- 16.8 The council is required under statute to have regard to the Prudential Code which states that that “all external borrowing and other long-term liabilities are within prudent and sustainable levels”. General Fund capital projects funded by prudential borrowing will incur an annual revenue cost over the life of the asset – a minimum revenue provision (MRP), which is equivalent to the principal repayment, and external interest/opportunity cost. There is not a requirement to apply MRP in respect of the HRA. Where a project does not provide additional income or savings in excess of the annual borrowing cost, it may be necessary for the council to make further savings elsewhere. Typically, the council funds projects from borrowing where the income and/or savings exceed the cost of borrowing.
- 16.9 Where the council has existing resources (e.g. reserves) it is able to “internally” borrow and so delay the need to externalise its borrowing requirement; this reduces interest costs in the short term. The council's Capital Financing Requirement (CFR) up to 31 March 2025, which represents unfinanced capital expenditure in prior years, is shown in the table below. The CFR is increased when a new capital project isn't financed from other resources and is reduced by the annual MRP. The council can also elect to reduce the CFR by making a “voluntary” provision above the MRP. This will reduce the amount of MRP in future years and, if funded by a new capital receipt, will also reduce the need to externally borrow and therefore interest savings can be made.

<b>Capital Financing Requirement</b>	<b>General Fund £000</b>	<b>Housing Revenue Account £000</b>	<b>Total £000</b>
<b>Capital Financing Requirement at 1 April 2024</b>	<b>70,160</b>	<b>212,546</b>	<b>282,706</b>
Unfinanced capital expenditure - in year	1,383	0	1,383
Introduction of IFRS 16	602	0	602
Minimum revenue provision (MRP)	(1,737)	0	(1,737)
Voluntary provision for the financing of capital	0	0	0

<b>Capital Financing Requirement at 31 March 2025</b>	<b>70,408</b>	<b>212,546</b>	<b>282,954</b>
<b>Made up of:</b>			
External borrowing	0	154,491	154,491
Internal borrowing	70,408	58,055	128,463

### Challenges and opportunities

- 16.10 The Prudential Code requires that the council's "capital expenditure plans and investment plans are affordable and proportionate". It must be proportionate both relative to the size of the council and in respect of the risks being proportionate to the overall capacity of the council to absorb them; i.e. "plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services and the level of resources available to the organisation". In recent years both inflation and the cost of borrowing have increased significantly which has impacted negatively on the commercial viability of some refurbishment and regeneration schemes where a surplus after the cost of borrowing had previously been anticipated. Whilst inflationary pressures have reduced, the cost of borrowing remains higher than the historically low rates available for several years and is not expected to materially fall.

#### *Inflation*

- 16.11 The September Consumer Prices Index (CPI) was 3.8% (compared to 1.7% a year earlier and 6.7% the year before). Inflation has remained above the Bank of England (BOE) target for each of the last 12 months. Headline inflation feeds through into costs via, for example, higher wage demands. However, inflation differs between products and sectors. In recent years, there has been very high inflation in respect of construction and materials costs.

#### *Borrowing*

- 16.12 Local authorities can borrow from the Public Works Loans Board (PWLb) which is typically the cheapest and most straightforward source of borrowing. Lending rates for the General Fund are based on UK gilts (government borrowing) plus a margin of 0.8%. The council's treasury advisors expect longer term gilt yields to remain at similar rates in the medium term but do not expect a return to the historically low rates that were available for several years. The 40-year annuity rate as at 22 October this year was 5.9% compared to 2.3% in February 2022.
- 16.13 Significant changes in the cost of borrowing can impact on the commercial viability of refurbishment or regeneration projects and on the affordability of the capital programme overall. For example, for a £5m project with a 30-year life the annual cost of borrowing (MRP (principal repayment) and interest) is £255,000 per annum (5.1%) at an interest cost of 3% and is £363,000 (7.3%)

at an interest cost of 6%. The gross yield for commercial viability needs to be more than the total MRP and interest cost.

#### *Asset sales*

- 16.14 As well as refurbishing existing assets, the council considers the possible sale of assets as part of its asset challenge programme. While there may be reasons not to dispose of particular assets, the benefit of a sale is that it produces a capital receipt that can be used to fund capital expenditure for which alternative funding is not available or where high borrowing costs would make a project unviable. It could be used to fund expenditure that would have been funded by revenue reserves thus releasing those reserves for other purposes.
- 16.15 A new capital receipt can also be used to reduce prior year unfinanced capital expenditure and deliver annual revenue savings by reducing MRP (principal repayment) and interest costs. The actual saving would depend on the life of the asset concerned and on the interest costs at the time. The following table illustrates the potential estimated annual saving made on an asset with a life of 40 years:

Revenue saving by applying £1m capital receipt to unfinanced project with 40 year life				
	5.5%	4.5%	3.5%	2.5%
Annual saving (£'000)	62	54	47	40
Cumulative saving (40 yrs) (£'000)	2,493	2,174	1,873	1,593

#### *New capital budget requirement*

- 16.16 As noted in 14.9 above, approval is sought for a budget of £100,000 for the conversion of Stable Yard, to the rear of 59 Colebrook St, to provide temporary accommodation. The works will be subject to a full business case and approval for expenditure under Financial procedure rule 7.4.

#### *Emerging projects*

- 16.17 A recent condition survey has indicated that works of £5m are required to the Guildhall. These important works will ensure that this important and historic listed civic building is maintained to a good standard for many years to come. It will also address the quality of some utilities so that letting potential is improved. A detailed plan is being prepared and a budget will be included in the capital strategy in February 2025 to be funded from existing reserves.
- 16.18 New “invest to save” capital budgets may be required to support the council’s **TC25 programme** in order to generate ongoing revenue savings. Further investments are likely to be required as part of the council’s strategy for **digitalisation**. Digitalisation presents an opportunity to improve customer experiences as well contribute to ongoing savings.
- 16.19 The council’s ambitious **Greener Faster** carbon reduction goals may require further capital investment in the future. Whilst inflation and a higher cost of

borrowing presents challenges, the council has successfully applied for grants to ensure projects are affordable and will continue to identify potential grant funding for future projects. Some interventions also present opportunities: for example, investment in solar has the potential to generate additional income over and above the cost of borrowing which would allow the council to make further interventions.

## 17 Adequacy of Reserves and Robustness of Estimates

- 17.1 There are specific requirements under Section 25 of the Local Government Act, 2003, for the Chief Finance Officer to provide a positive assurance statement about the adequacy of proposed financial reserves and the robustness of estimates made for the purposes of the budget calculation.
- 17.2 Reserves are detailed in this report and specific comment is made on the most significant balances. The general fund working balance is discussed above and is considered to be adequate.
- 17.3 When considering the robustness of estimates for the budget calculation for the current year, savings and increased income proposals included in the budget must be considered to be achievable. Considerable savings have been achieved to date, and the recent experience has been that compensating savings have been found to cover unforeseen growth pressures. The purpose of reserves, in particular the general fund working balance, is to provide a cushion for these variations.
- 17.4 The S151 officer is able to provide positive assurance on the robustness of the estimates, within the context of the overall budget and reserve levels, for the purpose of the budget calculations for the next year.

## 18 OTHER OPTIONS CONSIDERED AND REJECTED

- 18.1 Scope for additional savings in 26/27 to reduce the use of reserves does exist but would have a significant and direct impact on service levels and service quality. With the uncertainty that exists regarding future funding, the recommended balance between savings and use of reserves to achieve a balanced budget is considered reasonable.
- 18.2 However, it is essential that work to identify longer term savings through the Transformation Challenge 2025 programme as set out in this report is critical to ensure the Council can meet its obligation to set a balanced budget in the future.

## BACKGROUND DOCUMENTS:-

### Previous Committee Reports:-

CAB3483 General Fund Budget Options & Medium-term Financial Strategy dated 20 November 2024

CAB3494 General Fund Budget 2025/26 dated 12 February 2025

CAB3495 Capital Strategy 2025-2035 dated 12 February 2025  
CAB3514 General Fund Outturn 2024/25 dated 10 September 2025

Other Background Documents:-

None

APPENDICES:

1. Medium Term Financial Projections
2. Summary of all Revenue Proposals
3. Summary of Reserves